



International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valores  
Organizaci n Internacional de Comisiones de Valores

7 April 2016

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

RE: IASB Exposure Draft – Transfers of Investment Property, Proposed amendment to IAS 40

Our Ref: 2016/JE/C1/IASB/60

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Transfers of Investment Property, Proposed amendment to IAS 40 (the Exposure Draft or ED)*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO’s mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

### **Evidence of a Change in Use**

Members appreciate the Board’s effort to clarify when a property should be transferred to, or from, investment property. Members feel that this is an area where clarity around the trigger that leads to a transfer would foster more consistent application of IAS 40 regarding transfers of



International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valores  
Organizaci n Internacional de Comisiones de Valores

investment properties. Nonetheless, members believe the amendment as drafted does not fully clarify the existing guidance and as a result it may be difficult to enforce.

The proposal indicates that the trigger that leads to a transfer to, or from, investment property is when there is evidence that a property meets, or ceases to meet, the definition of investment property in IAS 40. Members realize that the proposal as drafted clarifies the guidance that already exists in IAS 40, paragraph 57. Members feel the existing guidance as well as the proposed amendment would better promote consistency in application and securities regulators would be better able to enforce its provisions if the guidance clarified the Board's intent with respect to how broadly constituents should interpret what constitutes evidence that a change in use has occurred.

When considering whether there is evidence that a change in use has occurred, members agree that more than a change in management's intention is needed to transfer property to, or from, investment property, as indicated in BC3(b). However, members question what beyond intent is needed under the guidance proposed. For example, the question originally posed to the Board was whether a property under construction or development that was previously classified as inventory could be transferred to investment property. In this generic fact pattern members continue to be unclear as to whether a change in management's plans (e.g., a decision to lease instead of sell) due to a general change in the market (e.g., decline in property values) would be evidence that a change in use has occurred. Some members believe that such a decision by management or a board of directors constitutes sufficient evidence that a change in use has occurred, and that this view is sometimes applied in current practice. Other members believe that a decision by management or a board of directors is not enough.

Members recommend the Board consider the following possible alternatives to resolve the concerns raised above:

1. Clarify whether the IASB intends to establish a higher threshold for movements to, or from, investment property than is necessary upon initial recognition of an investment property under IAS 40. Some members believe that because BC3(b) indicates a change in management's intention would not constitute sufficient evidence of a change in use there is a higher threshold for movements than for initial recognition, because upon initial recognition a company may have nothing more to evidence classification of an investment property than its intention and plans. If the Board intends to establish a higher threshold for transfers, then members advise moving the concepts in BC3 to the body of



International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valores  
Organizaci n Internacional de Comisiones de Valores

the standard in order to make this clear. Members feel that the current language differences between BC3 and paragraph 57 will cause enforceability issues regarding whether a change in use has occurred vs. simply a change in management’s intentions.

2. Revisit the list of examples provided in IAS 40, paragraph 57, to determine whether the examples are representative of the spectrum of evidence that may be required to indicate a change in use in light of the Board’s determination in (1), above. While the proposal indicates that the list is non-exhaustive, all of the examples included describe a change in the status of the property that has occurred (in other words, a physical change). An approach to the examples in which they are all of the same type leaves doubt as to the Board’s intentions for situations in which a change in use has been either decided by management or the Board, and/or evidenced by a contract with a third party, but has not yet occurred (that is, no evidence yet of a physical change). For example, if local regulations (i.e., permitting) impact the use of the property or market prices change, this could lead to management and/or the Board of Directors changing their decision about the property’s use going forward, for example to lease or to sell. Members believe these would be common circumstances in which an actual change in use of the property may be considered to have occurred before a physical change has occurred (for example, management stops actively marketing a property for sale, but has not yet signed an operating lease agreement with another party), but it is unclear whether in these circumstances a change in use that triggers a transfer under IAS 40 is what the IASB intended. Therefore, it is unclear from the nature of the examples whether this type of situation fits within what the Board intended as evidence of a change in use.

## Transition

With regard to transition, some members are concerned about the potential use of hindsight in the application of the amendment. The amendment re-characterizes the list of circumstances that provide evidence that a change in use has occurred as a non-exhaustive list, which when assessing retrospectively may lead to the inappropriate use of hindsight in transition.

\* \* \* \*



# OICV-IOSCO

International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valores  
Organizaci n Internacional de Comisiones de Valores

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt  
Chair  
Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions